

Message Text

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ACTION EB-08

INFO OCT-01 ARA-10 IO-13 ISO-00 AGRE-00 CEA-01 CIAE-00

COME-00 DODE-00 FRB-03 H-01 INR-10 INT-05 L-03

LAB-04 NSAE-00 PA-01 CTME-00 AID-05 SS-15 STR-07

ITC-01 TRSE-00 SP-02 SOE-02 OMB-01 DOE-15 NSCE-00

SSO-00 USIE-00 INRE-00 JUSE-00 FTC-01 DOTE-00

DOEE-00 /109 W

-----024123 291705Z /72

O R 291610Z MAR 78

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC IMMEDIATE 6845

INFO USMISSION GENEVA IMMEDIATE

AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

C O N F I D E N T I A L BRASILIA 2488

GENEVA FOR MTN

E.O. 11652: GDS

TAGS: ETRD, MTN, BR

SUBJECT: USG HANDLING OF AUTOMOTIVE EXPORT REQUIREMENTS IN MTN

REF: STATE 77056#

1. THE BEFIEX EXPORT PROGRAM, ESTABLISHED IN 1972, IS A VOLUNTARY PROGRAM, OPEN TO BRAZILIAN AS WELL AS MULTINATIONAL FIRMS. PARTICIPATING FIRMS COMMIT THEMSELVES TO EXPORT A MINIMUM OF A SPECIFIED DOLLAR VALUE OF GOODS OVER A TEN YEAR PERIOD, IN RETURN FOR WHICH THEY ARE PERMITTED TO IMPORT UP TO ONE-THIRD OF THAT DOLLAR AMOUNT EXEMPT FROM THE 100 PERCENT IMPORT PRIOR DEPOSIT AND WITH 90 TO 100 PERCENT EXEMPTION FROM FEDERAL TAXES. UP TO ONE-THIRD OF THE TOTAL BEFIEX IMPORTS MAY BE NON-CAPITAL GOODS (INTERMEDIATE PRODUCTS OR INPUTS). THE FIRMS ARE REQUIRED TO MAINTAIN A POSITIVE BALANCE OF PAYMENTS EACH YEAR, INCLUDING INVISIBLE TRANSACTIONS.

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2. THE BEFIEX PROGRAM THUS OFFERS MANUFACTURERS A MEANS OF GETTING AROUND THE HEAVY COST OF IMPORTS DUE TO IMPORT DUTIES AND THE PRIOR DEPOSIT AND, IN THE CASE OF THE AUTOMOBILE INDUSTRY, SOME RELIEF FROM THE REQUIREMENT THAT AUTOMOBILES AND TRUCKS PRODUCED IN BRAZIL HAVE A NATIONAL CONTENT OF 95 PERCENT BY VALUE. FOR FIRMS PARTICIPATING IN BEFIEX THE NATIONAL CONTENT REQUIREMENT

IS 85 PERCENT FOR AUTOMOBILES, 80 PERCENT FOR MEDIUM AND HEAVY TRUCKS, AND 78 PERCENT FOR EXTRA HEAVY TRUCKS. ALL MAJOR CAR, TRUCK, AND BUS MANUFACTURERS IN BRAZIL ARE PARTICIPANTS IN THE PROGRAM. IN FACT, THE NATIONAL CONTENT OF PASSENGER CARS IS AROUND 99 PERCENT, BUT THE PARTICIPATING FIRMS STILL FIND THE PROGRAM USEFUL BECAUSE IT GIVES THEM FLEXIBILITY WITH RESPECT TO IMPORTS OF MACHINERY AND COMPONENTS FOR OTHER PRODUCTS, SUCH AS TRACTORS, TRUCKS, NEW PRODUCTS, AND, IN THE CASE OF FORD/PHILCO, COMPONENTS FOR CAR RADIOS.

3. THE BEFIEIX PROGRAM CAN BE SEEN AS A FORM OF EXPORT SUBSIDY, INASMUCH AS IT GRANTS BENEFITS TO PARTICIPATING EXPORTERS, AND IT THUS MAY HAVE SOME TRADE-DISTORSIONARY EFFECT. ITS SOLE REASON FOR BEING, HOWEVER, IS TO ENCOURAGE EXPORTS BY PROVIDING RELIEF FROM THE IMPORT RESTRICTIONS AND FROM THE NATIONAL CONTENT REQUIREMENTS, WHICH ARE THEMSELVES A FORM OF IMPORT RESTRICTION. BRAZILIAN AUTOMOBILE EXPORTS HAVE PROVEN COMPETITIVE IN SOME THIRD COUNTRY MARKETS EVEN THOUGH THEIR HIGH DEGREE OF NATIONAL CONTENT MEANS THAT THEY RECEIVE LITTLE BENEFIT FROM THE BEFIEIX PROGRAM. THUS IT IS NOT CLEAR TO WHAT EXTENT EXPORTS WOULD DECLINE, OR CEASE TO GROW, IF THE BEFIEIX PROGRAM WERE TO BE ABOLISHED. IT WOULD BE MUCH MORE ADVANTAGEOUS TO US TRADE INTERESTS IN BRAZIL IF WE COULD ACHIEVE A REDUCTION OF THE WHOLE SYSTEM OF IMPORT RESTRICTIONS--ABNORMAL TARIFF LEVELS, THE 100 PERCENT PRIOR DEPOSIT, ARBITRARY DENIAL OF IMPORT LICENSES GENERAL AVIATION AIRCRAFT, 727'S FOR VASP), THE PROHIBITION OF GOVERNMENT PURCHASE
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OF FOREIGN GOODS IF A "NATIONAL SIMILAR" EXISTS, NATIONAL CONTENT REQUIREMENTS WHICH EFFECTIVELY PROHIBIT IMPORTS (DIESEL ENGINES FOR LOCOMOTIVES, AUTO PARTS), AND THE PRACTICE OF FAVORING IMPORTS FROM COUNTRIES WITH WHICH BRAZIL HAS A BILATERAL TRADE SURPLUS (SPAIN, EASTERN EUROPE).

4. THIS MESSAGE PREPARED BY COMMERCIAL COUNSELOR, SAO PAULO.
JOHNSON

NOTE BY OC/T: #REFTEL BELIEVED TO BE INCORRECT.

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NNN

Message Attributes

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Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: EXPORTS, AUTOMOTIVE INDUSTRY
Control Number: n/a
Copy: SINGLE
Draft Date: 29 mar 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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Handling Restrictions: n/a
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ISecure: 1
Legacy Key: link1978/newtext/t19780315/aaaaamml.tel
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Review Release Event: n/a
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Review Withdrawn Fields: n/a
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Status: NATIVE
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